

### Economics - Hungary

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László Csaba

## Economics - Hungary<sup>1</sup>

The following pages attempt to survey major trends, without aspiring to full coverage of a subject that would require a monograph. In structuring the present country study, I strictly follow the thematic orientations that have evolved from the series of preparatory meetings and try to address those issues that the present project sees as focal.

Presenting an overview is difficult because systemic and analytical collecting of bibliographical data ceased to exist, and available databases are selective and largely influenced by coincidental factors. Core publishers have radically diminished their academically oriented activities in Hungary and have re-oriented their supply toward how-to-do books, textbooks, and translations of various sorts. It is hard to find monographs written by living Hungarian academics, i.e., books (other than policy commentaries) still made available by professional academic publishers and *not* falling into any of the above categories.

Meanwhile, new small and medium-sized publishing houses have emerged, and they do venture, on occasion, to print something that looks or actually is academic. A considerable part of the output of the post-transition period has been published in collective volumes abroad, whose systematic and analytical coverage is not available in any of the big libraries or databases.<sup>1</sup>

### 1. Analysis of the pre-1989 situation

Hungary has had a long tradition of economic thinking dating back to the mid-1700s (with Gergely Berzeviczy) that tended to follow world trends, mediated by *Austrian* tendencies. This tradition was strongly influenced by practical experiences such as war, inadequate tax collection, crises, etc. (for an overview, cf Hetényi, 2000). This explains the crucial role of *public* finances, problems of *taxation*, market protection, avoidance of public debt, the focus on equitable *distribution*, and the limits to *state activities* in reaching these ideals.

While Hungary was constitutionally independent, it was politically and economically part of the Austrian Empire, employing an independent customs tariff from 1867 on. It is hardly by chance that in this period, as well as in the inter-war period of economic nationalism, the issue of the *optimal mix of free trade* (provided basically by the large imperial-regional market) and *market protection* (based on the infant industry argument) played a key role. This debate was influenced not only by the ideas of Friedrich List, but also by the fact that the political undercurrent of supporting and strengthening Hungarian statehood contradicted efficiency considerations (cf also Niederhauser, 2001).

This has led some observers (Mátyás, Antal, 2000) to underscore the statist tradition and the constant unwillingness to follow *laissez faire* by all school-molding personalities, as exemplified by Gyula Kautz and Béla Földes, the dominant professors of the 1863-1945 period at the Budapest University (Pázmány Péter Tudományegyetem). Others, however, highlight broader academia's relatively long adherence to traditional liberalism also in the inter-war period. Then only military industrialization and national euphoria, followed by a return of some lost territories in 1938-40 (following the first and second Vienna Decision of Great Powers) and the resultant developmental tasks, crowded out liberalism in favor of generally the state-led concepts (Lengyel, László 1994).

Thus those of the young generation of the 1930s and '40s who survived the war and the political purges of 1944-49 and also refrained from emigration tended to be adherents of a managed economy (*gelenkte Wirtschaft*) of one sort or another. This statement holds for the small

<sup>1</sup> The author would like to thank Július Horváth and János M. Kovács for their useful comments on the first draft and Alf Vanags, Morten Hansen, and Tadeusz Kowalik for theirs on the second draft.

number of non-Marxists who survived the political waves and avoided the marginalization that had been the fate of the school-molding personalities of the inter-war period, such as Ákos Navratil, Farkas Heller, István Varga, József Judik, and Ede Theiss. These people were not involved in policymaking during World War II; thus these purges are not comparable to the Nuremberg Tribunal activities. The “cleansing” affected all social sciences, the entire state administration, and the judiciary, and judgment on the basis of individual merit was an exception, not the rule.

It is important to underscore that pre-war traditions and insights could thus have a limited impact at best, due to the complete purge of the Hungarian Academy of Sciences and of the universities in 1946-49. The newly established<sup>2</sup> Karl Marx University of Economics (KMUE)/(Marx Károly Közgazdaságtudományi Egyetem, MKKE) was launched under one of the staunchest Stalinist ideologues, László Rudas having returned from Moscow<sup>3</sup>. The Institute of Economics of the Hungarian Academy of Sciences (Magyar Tudományos Akadémia Közgazdaságtudományi Intézete, MTA) was established by (and for the followers of) Imre Nagy, the reformed communist party leader, and this institute remained a stronghold of reformist-revisionist thinking up until the mid-1980s<sup>4</sup>. The presence of non-Marxists was fragmentary and ad hoc, mostly in the working groups on economic reform and in some privileged places such as the Institutes of the Hungarian Academy of Sciences. But even here, personal loyalty or luck, rather than academic excellence, shaped survival possibilities.

Having prescribed the official language, the dogmas, and the intellectual framework for analyses, Marxism became a defining component for intellectual development in the period 1949-79. Most of those who became radically opposed to the régime came from either Communist families or went through at least a temporary but intense flirtation with Marxism as a youthful enthusiasm. This resulted not only from the Communist Party’s monopoly on truth and information, but also from the upbringing and convictions of the new elite. Well-known exceptions only underscore the rule.

One of the true paradoxes of Hungarian economic thought is therefore how little true Marxism, as a seriously taken ideological framework, shaped *research output* in the period under scrutiny<sup>5</sup>. There is no need to rehash extensive surveys and documentations of the theoretical evolution of the period (cf Berend, 1988; Antal, 1998; Szamuely and Csaba, 1998). The bottom line is that, with the disenchantment following the crushing of the 1956 revolution and even more following the derailment of the experiment with “socialism with a human face” in 1968 in Prague, *pragmatism* and pronounced non-ideological orientations *prevailed* over the continuing language of party secretaries. True, language does put severe limitations on what could be studied and communicated and how.

This notwithstanding, Hungarian economic research tended to be *empiricist*, increasingly *formal*<sup>6</sup> and *integrated* in the international profession. The latter was associated with the continuing cultural liberalization, which permitted longer study trips abroad, regular visits by foreign scholars to Hungary, and last but not at all least, *regular publications of Western economics and thought*. This began with a Hungarian edition of Keynes’ *General Theory* in 1965 and continued with the publication of collections of Economics Nobel Prize winners, such as Friedman, Tobin, Hicks, and Shultz, not to mention numerous collective volumes. Publications of such books as Max Weber’s classic works, Karl Polányi, Alexander Gerschenkron, and many others have created what was called at the time a second dimension of publicity.

From 1955 on, the university curriculum again included<sup>7</sup> an extensive, though critical, presentation of major Western contemporary economic schools (Mátyás, Antal, 1991). These posed a constant challenge to upcoming generations to make use of the sources opened up by publishing activities. Relatively unconstrained access to libraries permitted relatively broad groups of economists to regularly familiarize themselves and keep up with Western theories. In the more applied fields, from finance to management and marketing, reference to Western concepts became the standard as a base for understanding the bits and pieces.

The influence of Western economics was thus constantly much *broader* and *deeper* than direct reference to academic writings might suggest. Especially during the 1980s, a multidimensional radicalization was followed by *convergence to Western standards*. In the teaching practice of the Budapest University of Economics (Budapesti Közgazdaságtudományi Egyetem, BUES), political economy courses were discontinued in 1986 and replaced by standard macro- and microeconomic education. Symbolically, the school dropped the reference to Karl Marx from its name (though its ideological tolerance and pluralism had been observable even before). These changes were all the more impressive when we consider that traditional screening procedures excluded critical minds from teaching positions in higher education. Such thinkers found employment with the HAS or institutes of applied research and could publish their ideas, but not teach them. The obstacles were *not* abolished until 1990.

Step by step, economics had become radicalized. On *one* level (documented in Szamuely and Csaba, 1998), proposals to introduce *capital markets*, *convertibility*, and *private property* were openly formulated, sometimes even in policy documents. On *another* level, formalized training expanded, and a growing number of students were able to continue their graduate studies in the West. *Third*, traditional empirical-sociological analyses of the behavior of institutions and corporations alike became increasingly critical, showing the hopelessness of the situation under the given constraints. Studies of the irregular economy, of finances, and of foreign trade should be noted in particular. *Fourth*, the formation of opposition movements and, later, parties allowed the formation of independent policy platforms, unconstrained by ideological bias or considerations of political expedience, which always loomed over the official reform projects.

Interestingly, while oppositionals had once been at the forefront of demonstrating the unfeasibility of the Marxist economic project (Kis, Márkus, and Bence, 1972)<sup>8</sup>, political movements *added little* to what was already available at the time of their conception. As a retrospective analysis (Laki, 2000) demonstrated in detail, the prevalent concepts were ideas of self-management, a “Third Way”, and a big state sector complemented by competing small business in services. Even if conservatives were talking of the *soziale Marktwirtschaft*, they did not really mean it (Lányi, 1996). Their message was to dissociate themselves from “unbridled capitalism”, an idea feared by many, following the bad news that followed the first months of shock therapy in Poland (i.e., of high inflation, layoffs, etc.).

## 2. Redefinition of the discipline since 1990

It would be hard to speak of a 1990 *Neuanfang* in the life of Hungarian economics. Previously covert ideological differences have come out in the open and previously suppressed right-wing political convictions can now be aired. These, however, have added little, if any value to the professional debate. Since Hungary’s revolution was truly a negotiated one (Tökés, 1997), any search for such a Rubicon as the collapse of the Berlin Wall or the demolition of the Czechoslovak or Rumanian communist dictatorships in November-December 1989 would be in vain. On the one hand, some fundamental policies and institutional reforms, such as the liberalization of foreign trade, privatization, and the re-opening of the stock exchange, were already launched by the outgoing Németh administration. On the other hand, the country was so deeply in debt that there was little room for the new elite to experiment. With the exception of some odd émigrés, no one advocated radically dissimilar economic policies (cf the documentation in Székely and Newbery, 1993; Csaba, 1992). There were, of course, *differences* in regard to speed, sequence, distributional consequences, and the like, but *not in the fundamentals* of the underlying strategy.

Relatively limited and gradual changes in teaching could also be observed. While the approximation to Western standards in microeconomics has intensified, progress in macroeconomics has been slow. Orientation toward an outdated Keynesian-Kaleckian concept prevailed for over a decade even at the market-leading Budapest University of Economics and Public Administration (Budapesti Közgazdaságtudományi és Államigazgatási Egyetem,

BUESPA). Several standard Western textbooks have, however, been translated (as early as 1987 in the case of the Samuelson-Nordhaus volumes), but their *application* in teaching practice *remained limited, if it existed at all*, ever since.

International economics continued to be dominated by the previous radical Neo-Marxist approaches, reflected in most core textbooks. These tended to be complemented by a growing body of descriptive material on the European Union, its policies, its functioning and Hungary's practices of adjusting legal arrangements and sectoral policies to these.

Industrial organization and business management tended to dominate over economics in the curricula of the newly established faculties. More university and college degrees have been awarded than ever before, raising serious concerns over quality – an issue not confined to the economics and business faculties (Polónyi and Timár, 2001). To give but one figure: the number of economics graduates was one thousand in 1989; it increased by a factor of eleven by 2001.

Most of the new faculties have been built on inherited political economy departments or former Marxism-Leninism institutes. This implies that, although several universities hired former oppositionals and other people, primarily from the Hungarian Academy of Sciences, who had been critical of the *ancien régime*, a fundamental re-orientation of the economics discipline toward standard Western parameters still proved to be the exception rather than the rule, as far as macroeconomics is concerned. The old habit, not unusual in Western Europe, that each department uses its own textbook, seem to have prevailed in the majority of cases.

Given that the change of circumstances required many people to master introductory courses and teach these to a great number of students, *new faculties rarely have proven to be fountains of original new research*. Their presence is felt only poorly, if at all, in the academic journals, and except for publishing their own textbooks with their home publishers, they rarely penetrate to international markets.<sup>9</sup>

The change of elites has thus been *gradual and incremental*, accelerated by switchovers to politics and business, a feature quite common also in the United States and elsewhere. Negotiated revolution in Hungary allowed for limited changes, with no purges, lustration or the like. Leading ideologues of the *ancien régime* could enjoy renewed tenures and late retirements in a large number of cases (even without converting into national-conservative activists).

Taking the examples of Budapest universities, the late Rudolf Andorka, the Rector of BUESPA in 1991-97, himself a victim of persecutions, placed great emphasis on avoiding purges. The Budapest Technical University (Budapesti Műszaki és Gazdaságtudományi Egyetem), expanding its activity in teaching economics and management, had serious difficulties luring academic excellence, even to serious positions. It succeeded in re-employing losers of BUESPA's various power twists and turns, but much less in creating a supply response of new, previously untested talent to conquer the pages of leading national and international academic journals.

One of the big surprises of the post-1989 period has been the very *limited presence of private capital and private initiative* in general. In part, this has been due to the lacunae in tax legislation in Hungary. They render donations to charity foundations less than lucrative, limiting their size to ridiculously low amounts<sup>10</sup> (measured against the actual consolidated costs of running any academic institution on a regular basis). Legislation on non-profit activities has been rudimentary, slow, and inadequate to funding needs (Kuti, 1996). This holds not only for teaching, but all across the potential range of civic activity, from health care to looking after homeless people.

Another defining feature of the overall landscape has been the lack of a well-to-do and civilized middle class oriented toward cultural values. Sociological analyses have shown middle classes to be the main losers of transformation<sup>11</sup>. Moreover, the new middle class is more of a traditional *Besitzbürgertum* than a *Bildungsbürgertum*, which is hardly surprising in view of the well-known trends in income rearrangements. Last but not least, foreign capital and foreign donor organizations have taken an equally skeptical view of investment opportunities in this field.

As a consequence, *private* universities and *private* research institutions have *remained the exception*, not new rule-makers. On a large scale, only Central European University, funded

chiefly by the donation of a single private person, and the Pázmány (Pázmány Péter Katolikus Egyetem) and Károli Universities (Károli Gáspár Református Egyetem), funded by the Roman Catholic and Reformed Calvinist Churches, respectively, were able to take root with a longer-term perspective. It is true that management courses and business schools abound, but few of them could be accredited by the state on the base of their merit; and their academic performance is not measurable.

In the field of research, for similar reasons, no major progress can be observed. While institutions of the Hungarian Academy of Sciences had to be merged and “consolidated”, i.e., downsized, they survive basically through self-financing, i.e., on case-by-case project financing through their members. Applied economics research institutions, such as Financial Research Inc. (Pénzügykutató Rt), Kopint-Datorg Economic Research, and GKI Economic Research Institute (Gazdaságkutató Intézet) have been increasingly (almost exclusively) pushed toward *business consultancy*, with some of the long-time members still devoting some of their time and energy to research as a private hobby. Cooperation with Western institutions was helpful as bridging solutions to individual headaches, but *not for creating a new structure* to fund research. Other new institutions, such as the Institute for Economic Growth (Növekedéskutató Intézet) and the TREND Forecast Group (TREND-PROGNÓZIS Kft), are thinly-veiled party think-tanks, employing a couple of analysts, and – naturally – not proving terribly ambitious for measurable academic achievement.

Case-by-case funding seems to have been instrumental in *shaping research orientations and publishing venues* – an issue we shall discuss below. The trivial consequence is, of course, a decline in fundamental research and a strong orientation toward practically relevant/financable projects.

Interestingly, but understandably, *repatriation has not been a significant* source of gaining new knowledge and new people. Rehabilitation of émigrés already began in the 1970s, with Hungarians who had gained fame abroad being invited and celebrated by the home audience, including officialdom. Lord Thomas Balogh, Lord Nicholas Káldor (not, however Lord Peter Bauer), and the chief of the Council of Economic Advisors in the Ford administration, William Fellner, Béla Balassa of Johns Hopkins (and an influential figure shaping the World Bank paradigm on development), and many others have already found their ways to the local audience.<sup>12</sup>

Among those who did *not* return prior to 1989, we find hardly anyone with an important scientific or other professional contribution. The typical career path is that of Baron Alexandre Lámfalussy, who declined to abandon a professional path culminating in the Presidency of the European Monetary Institute merely to be nominated the Governor of the National Bank of Hungary in 1990 (reconfirmed in: *Világgazdaság*, Sept. 24, 2001)<sup>13</sup>. Thus, while contributing occasional advice to the government, successful people tended to remain where they were. On the other hand, the business community did profit from the return of some expats. Given the previous openness of the country, this issue has not been as important as in some other countries, like Estonia.

### 3. Core theoretical and methodological orientations

Pre-war traditions could hardly be revived in Hungarian economics. *First*, the great advance of economics as a science, the breakthrough of formalization through Samuelson’s revolution, has entirely rewritten what is today the mainstream of the profession. *Second*, very few representatives of the pre-1949 period survived in any shape to even theoretically nurture students of their own. *Third*, those who did survive the Stalinist period have in fact been *absorbed by reform economics*, i.e., that branch of applied research that aimed at improving the performance of the command economy by incorporating some market elements.

This was true of such once celebrated and influential non-Marxists as Jenő Wilesek, head of the Institute for Financial Research in the 1960s, József Bognár, Director of the Institute for World

Economy (Világgazdasági Kutató Intézet) from 1967-87, and István Varga, founder and Director of the Institute for Economic Research from 1930-49 (Magyar Gazdaságkutató Intézet) and Chairman of the Committee for Economic Reform from 1956-57, to name a few. An exception to this rule is the Academy member Béla Csikós-Nagy, who has remained critical of the “overdose of monetarism” in Hungarian policy-making and who basically retains the conceptual framework of the managed economy of the 1930s (Csikós-Nagy, 1997). Building on this concept, he also developed a power-based explanation of the price system in the global economy (Csikós-Nagy and Elek, 1995).

If we abstract from this, traditional Hungarian economics has become absorbed as a *core component in reform economics*, trying to use economic levers to attain policy goals.<sup>14</sup> The more the history of reform economics moved away from the state-managed economy to one based on the free market and private property, the more the *surpassing* of the managed-economy concept proved *inherent* and *organic*. The professional consensus in favor of capital markets, which emerged after a series of experiments to find substitutes for it, suggested that the very idea invariably failed (as documented convincingly in Tardos, 1986; Antal and Várhegyi, 1987). This defined a *point of no return* for the post-1989 period, as well.

*East-West asymmetries* thus evolved in several planes. *First*, relatively few researchers could directly join in the mainstream debates on economic theory. This had to do with the orientation and representation of Hungarian research. The only exception to this general rule has been János Kornai, who is in a category of his own. Given his manifold interests and background, which relate to formalized economics just as much as to empirical research and institutional analysis, his books were published by Western publishers already decades before transition (as *Overcentralization* (Kornai, 1959) *Anti-Equilibrium* (Kornai, 1972), and *Economics of Shortage* (Kornai, 1980) amply demonstrated). His articles appeared in all leading academic journals, from *Econometrica* to *American Economic Review*. However, it would be hard to classify his output in standardized categories – maybe precisely this building of bridges between separate worlds is one of the attractions of his analyses.

*Second*, in the more formalized approaches, Hungarian contributions tended to be made in the *methodological dimension* (Körösi et al., 1992; Mátyás, László 1999; Bródy, 1969b; Mátyás, László 1997; Valentiny and Lee, 2000). Traditional representatives of the formalized approaches also made significant contributions to pension-reform modeling (Augusztinovic, 2001; Augusztinovic, 2000; Simonovits, 2001), GDP measurement (Bródy, 1969/b, 1995), and the analysis of long-term cycles in economic development (Bródy, 1999). More recently, important contributions have been made to mainstream theory as well. The article of József Sákovic (with de Fraja, 2001) applies Nash’s game-theoretical approach to the formation of equilibrium price on the market. Contesting the previous critical view in the literature, Sákovic demonstrates that decentralized trade may lead to a Walrasian outcome, if entry is exogenous. András Simonovits (1999) has contributed to the theories of long-term cycles and of overlapping generations.

*Third*, traditional *empirically oriented* research remained strong, if not defining, during the 1990s. Monographic analyses of Hungarian privatization by Mihályi (1998) as well as by Antal-Mokos (1998), adopting a microeconomic perspective, and the two volumes by Voszka (1995, 1997) are representatives of this school. Analyses of why small businesses do not develop into Microsoft’s or Xerox-type success stories (Laki, 1998; Csaba, 1998), as well as theoretical (Inotai, 1989) and empirical analyses of the impacts of foreign direct investment (Hamar, 1995; Hunya, 1999; Mihályi, 2001; Szekeres, 2001) and of the enforcement of contracts (Papanek, 1999) are, in fact, a continuation of the field research that used to be a strong point of Hungarian analyses.

*Fourth*, new orientations have emerged with the need to redefine traditional, production-oriented, and market-unfriendly approaches to farming, in the context of globalization and ongoing reforms within the European Union (Fertő, 1999). This approach cautions against mechanistic extrapolation of EEC practices of the 1960s and 1970s onto the new, acceding countries. It also

highlights the limited efficiency of these policies in attaining the social and economic goals that used to legitimate their existence.

*Globalization* itself has become a subject of a controversy that obviously exceeds the limits of the economics profession.<sup>15</sup> Academic contributors to this debate (Király, Csontos and László, G. 1997; Lányi, 1997; 2001; Pete, 1999; Csikós-Nagy, 1999; Antal, 2000; Inotai, 2001) have highlighted the continued relevance of standard economic concepts in explaining new phenomena. Meanwhile, they helped clarify the existence and functioning of new structures and networks in the contemporary world economy. These controversies have contributed to the *convergence* of domestic and international debates in terms of *timing*, *subjects*, and *conclusions* alike.

Mirroring the changing choice of topics and methodologies in leading US journals, reflections on the *borderline between macro- and microeconomics* have also surfaced in Hungary. The study of *business networks* (Kocsis, 1998), the analysis of learning firms and new trends in *industrial organization* (Szabó and Kocsis, 2000), and the study of the *theory of markets* (Bruszt and Stark, 1998, Bruszt, 2000; Török, 2001) are all indications of keeping pace with contemporary Western analytic currents. Studying the limited role of institutional investors (Karsai, 2001) and of corporate alliances replacing the rat race (Buzárdy and Tari, 2001) and analysis of the non-profit sector (Kuti, 1996) and of state reorganization/organization rendering the difference between macro and micro relative (Szabó, 2000b) round out the picture. This list is far from exhaustive, and I have intentionally avoided reference to my own narrower specialty, international economic relations.

#### 4. Thematic orientation and funding

This truly very selective overview of issues may demonstrate that *transition was not the sole or even decisive focus* of economic inquiry in Hungary in the 1990s. This notwithstanding, a long-term observer and critic of the profession (Kovács, 1999: 322) has found the comparative advantage of this trend of thought precisely in its ability to analyze hybrid or confused states or processes. This means that evolution has been path-dependent, with the ambiguities stemming from more or less distant past events and experiences. This point is neatly demonstrated in the recent overview by András Nagy (2001), which presents an Olsonian view of systemic change and highlights the continuity in monopolistic and redistributive structures during all rearrangements.

Interestingly, this is the point where transformation studies come in, both by themselves and as processes extending researchers' interest to previously uncultivated areas. It is hardly by chance that monographs by János Kornai (1990, 1996) played a pioneering role in the international debate on systemic change. Some, but not very large numbers of monographs have been produced on the subject, such as Köves (1992), Csaba (1995), and Greskovits (1998), but their number is actually less than could have been expected from a once-leading reforming country. Collective volumes, such as Csaba (1994), Gáspár (1997), Bokros and Dethier (1998), and Halpern and Wyplosz (1999), are numerous but obviously hard to classify. They testify to the high level of actually accomplished *convergence* to Western *standards* of both formulation and publishing practice.<sup>16</sup>

Also typical of the situation and reflecting limited funding and institutional constraints, the bulk of the books published today tend to be collections of previously published ad hoc analyses by various authors, textbooks, historic overviews, or simply series of essays expressing more or less structured reflections on the subject. Generalizations on transition and on economics, sometimes quite sweeping, abound<sup>17</sup>, but their substantiation through literature reviews, impact factor analyses, monographs, and other conventional sources of scientific inquiry are surprisingly rare, and the number of new entrants to this market is, even more surprisingly, even lower.

One contribution going beyond day-to-day policy debates was the monograph of János Kornai (1997) on the *reform of the health care* system, calling for partial marketization in order to infuse new capital in the sector. The *Festschrift* for Augusztinóvics (Király, Száz, and Simonovits, 2000) contains mostly sectoral analyses and modeling papers on the *pension system*, while the *Festschrift*



for Lányi (Laki, Pete and Vince, 1999) contains mostly reflective and insightful analyses on the *international economy*. In both volumes, interdisciplinary approaches and quantitative analyses can be observed in peaceful coexistence.

In most of the literature it is hard to spot an unambiguous theoretical orientation. *Eclecticism* has always characterized Hungarian researchers, maybe because of the need for ideological compromises and to make their findings politically more acceptable. This is clear not only in studying fuzzy states, where it is probably inevitable to some degree, but in the more traditional fields of analysis as well.

Some of the contributions on *long-term growth* potential and the options related to it, such as Darvas and Simon (2000) and Simon, György (2001), have a clear neoclassical orientation and a concomitant message on the limits to governmental aspirations to foster growth via short-term activism, but other conventional approaches are less clear-cut. The monograph by Tibor Erdős (1998) on *inflation* and that by Éva Várhegyi (1997) on *bank privatization* take a *middle ground* between the customary theoretical extremes, similarly to the early contribution by Tardos (1992) to the international privatization debates. Thus, it would be hard to pin down a theoretical mainstream in Hungarian analyses in economics, if not the middle-of-the-road position and a fair degree of theoretical agnosticism, neatly reflected in a major contribution on exchange rate policy (Szapáry and Jakab, 1998) and in one on the efficiency-enhancing qualities of privatization (Major, 1999). This seems to be the typical view of the European Union (Inotai, 1998), stressing both the favorable and the less favorable components of the process of accession, including social costs and costs of enlargement proper (Inotai, 1999; Nagy, 1999; Szemlér, 2000).

In sum, it would be hard to find anything that would qualify as trailblazing methodological or theoretical novelties on the global scale. However, previous provincialism and methodological insufficiency have also subdued. The *substance and the style of discussion have converged to Western standards*. Subjects and interpretation, as well as points of emphasis, however, continue to have a certain *couleur locale*, and perhaps rightly so. This is reflected, *inter alia*, in the fact that transition economics has taken a prominent place in mainstream journals, most recently in (Kornai, 2001).

The intriguing question that emerges at this point is whether we can speak of a *Hungarian school of economics*. For the present and the future, it is hard not to share the skepticism of János Vincze (1996), who refers to the level of abstraction and the methodological universalism inherent in the modern analytical methods of economics as a separate scientific discipline and its self-interpretation (or self-imposed limits). On the other hand, looking back to the period since the 1930s, it is hard not to see the presence of a school in the sense of *shared approaches, visions, and even weaknesses*. This shared view is pragmatic, one concerned with the studious analysis of empirical reality, including corporate behavior and observation of the state administration's *modus operandi*, and reflecting on Hungary character as a small open economy. The latter implies limitations on any sort of ability to plan and on administrative control. On the other hand, there is also a degree of distrust in the invisible hand and a call for public policies to correct market failures.

To the extent that the economic school around Kelecki and Lange and around Brus and later Balcerowicz can be called the Polish economic school, the school represented and synthesized first and foremost by the predominant oeuvre of János Kornai can be called the Hungarian economic school. The critical reformist trend, established by such 1956 figures as Márton Tardos and András Nagy, and the empiricist tradition represented by László Antal, Kamilla Lányi, Mihály Laki, and many others add up to a clear *move* away from the managed economy concept of the 1930s towards the *one world consensus* currently shaping economic discourses in OECD countries (including, of course, the conceptual ambiguities inherent in any such consensual and policy-oriented approach). Thus, *neoinstitutionalism* (i.e., combining the neoclassical paradigm with the study of collective action and institutions) seems to have been the goal of the six-decade journey.

The special Hungarian road has, in fact, entered one branch of mainstream thinking – as represented by the European Economic Association and the Econometric Society – in that younger and more formally trained scholars are directly joining the international discourses. On the other hand, the features of eclecticism, pragmatism, and the search for middle-of-the-road solutions also seem to remain an important feature of the general way of thinking.<sup>18</sup> Obviously, it is not hard to find adherents to Keynesian, neoclassical, and even neo-Marxist schools, as in any other country. Still, the *couleur locale* obviously remains, currently increasingly as an *additional* feature of general approaches<sup>19</sup>, while remnants of the past continue to influence public and policy discourse for obvious reasons.

## 5. Public space and academic debates

From what has been presented in the preceding sections, it follows that scarce and selective funding and changes in its pattern have become fundamental in re-arranging thematic orientation and access to markets, especially international markets. In a typical case, a Hungarian researcher becomes a *part of an international team*. In some cases, he himself organizes one and finds resources to publish the findings. As a consequence the presence of Hungarian (as well as Czech, Polish, and other transition country) citizens has *increased* in the international markets. Likewise, it is becoming quite rare to find a book that would qualify as “Hungarian economic literature”, because, since the 1960s, the typical volume has increasingly been *multi-author, multinational*, and published by an *international publisher* (e.g. Clarke, 1989; Vajda and Simai, 1971) or by a national publisher, but in English for the world markets. The latter applies, alas, to a growing extent to German, French, Italian research and publishers. Consequently it is increasingly difficult to make any general statements on Hungarian or Polish (etc.) economics. Journals as well as books are increasingly international, as documented in the references appended to this survey.

At the end of the day, only the citation index and the number of reviews reflect the impact of our output. The distance to policy-making has grown, which is a welcome development in terms of independence, but unfavorable in terms of funding and creating conditions for market access.

What we have described also implies that the US standard of measuring performance by the *number of articles published in first-rate journals on pure theory* is *not a proper standard for evaluation* of actual accomplishments in the field.<sup>20</sup>

Most of the research output is produced in the framework of internationally funded research projects, where peer review takes place through the selection of authors, through research workshops, and frequently through the publishers’ ex post external refereeing of the materials. In other words, lacking the above infrastructure, *most of the output could never have come about*. And conversely, quality management is in the best interest of project coordinators and publishers. Thus, in the majority of cases, there are simply no free (not pre-committed) articles produced directly for the free markets.

This circumstance does *not* lead to the deterioration of quality, since substandard output is rejected by publishers and/or by unfavorable echo from reviewers. On the other hand, a century of experience shows that books have a lifespan of ten-plus years, while articles survive only three to four years at best. This point is easy to document via impact factor and citation index analysis in any discipline, including economics. The conclusion is that judging solely on the basis of journal articles, especially in leading theoretical journals, provides a seriously and *systematically distorted* view of the particular subject matter under scrutiny.

It is important to recall that *truly trailblazing studies* in the field have *resulted in and from international cooperation*, often on the global scale. The authoritative volume on welfare state reform (Nelson, Tilly, and Walker, 1999) and a more recent volume on the political economy of redefining the state (Kornai, Haggard, and Kaufman, 2001) could never have been produced without the type of institutional and funding infrastructure described above. An insightful analysis of the banking reforms in transition countries (Bonin, Mizsei, Székely, and Wachtel, 1998), a

multi-country study of privatization experience in the region (Major, 1999), a study of competition policy (Török, 1998), and one of adjustment to external disturbances (Bara and Csaba, 2000) are all cases in point. Almost none of the monographs quoted in the present survey of literature could have been produced without reliance on some sort of international cooperation and funding. For collective volumes, this goes without saying, and it remains the rule for individual articles, as well. Papers written out of sheer scientific or civic enthusiasm constitute a minuscule fraction.

This state of affairs explains the *small and declining proportion of purely theoretical pieces* and of fundamental research. From the viewpoint of theory of science, this should be a *warning sign to authorities*, since efficient adaptation and imitation does *presuppose some fundamental research* and the resultant ability to independently replicate some of the original research. It is equally a warning sign that much of the quoted output is a result of people—retired professors and emeritus researchers, as well as employees of the state administration—spending longer research stays abroad. In other words, much of the scientific production referred to is an *externality, from the point of view of current Hungarian public funding of economics research*. To put it differently, domestic and foreign project financing has been dominant in triggering the output over and above the regular budgets earmarked for R+D and university education, respectively.

In the broader intellectual life, transition has resulted in a multiplication of journals and intellectual workshops of various sorts, but stagnation and contraction has become the rule in academia. While old, established journals (without exception) fight for their survival, *no new foundation has proved to be a market success*. At the onset of transition, each institution launched its own publications or journal, often in English. The impact of the majority of these proved negligible, and so they disappeared. While the dominance of Anglo-Saxon global journals and publishers seems natural in all the disciplines, it is questionable whether there were really absolutely no demand for regional publishers and journals, as there was for regional stock exchanges and other regional markets. On the other hand, this state of affairs is likely to reinforce and cement the *unhealthy concentration* of truly academic activity *in the capital city*, thus perpetuating the laggard status of new regional establishments, despite their formal upgrading to university status.

Leading journals have therefore suffered under multiple pressures. *First*, a large proportion of new intellectual output is being pre-committed for publishers, mostly international ones. *Second*, the remaining output needs to be directed to top journals, not of the region, but of the globe, or at least of the European Union (EU). *Third*, the academic community normally does not reward publication in local languages, or only to a very limited degree. Thus the incentive to translate, let alone to adapt, scientific output has become a matter of patriotism.

In Hungary, the English language quarterly *Acta Oeconomica* was able to survive and invite high-quality contributions, mostly but not exclusively from the region. As time passes, it is becoming increasingly international. Its focus remains on transition, but its openness to various methods has also remained.

Among the Hungarian-language publications, *Közgazdasági Szemle* (Economic Review) traditionally offers the widest publicity to an academic. Publishing there has remained, to some degree, a point of reference for academic appreciation. It has sustained its broad, all-encompassing orientation, and thus the quality of papers is very uneven. *Sigma*, the journal on mathematical economics, by contrast, maintains high standards but is not very widely cited outside the circle of its contributors. *Külgazdaság* (External Economics) is a forum for policy-oriented research and international economics. Its strength is its constant orientation toward empirical research. It also regularly publishes leading articles from transition economics research in Hungarian and thus can be very useful in drafting up-to-date, high-standard curricula in Hungarian.

Given the broad interest that economic issues and especially policy debates command, there is almost no interdisciplinary journal that would not welcome contributions from economists. So the tradition of *publishing some of the policy papers in non-academic journals or even newspapers*

has continued. As a result, no one can claim with a clear conscience to possess a complete overview of the market.

The *feedback of world supply* to Hungarian audiences has proceeded much more efficiently. Publishers started with the items previously not included in the Nobel Prize winner series, like Friedrich August von Hayek or James Buchanan. Regrettably, the publisher discontinued this series in the mid-1990s.

Captive audiences seem to minimize risk, so publishers in Hungary have also shown diligence in acquiring anything that is or can potentially be a *textbook*. These include such bestsellers as *Public Sector Economics* by Joe Stiglitz (published in Hungarian in 2001) and the intermediate level *Microeconomics* of Hal Varian (published in 1996), which is to be followed by the advanced-level version (in 2002). In addition to the currently thriving translation business, some good-quality textbooks on standard economics by Hungarian authors have also been published, supported by university and college promises to use the books in the curricula. These include the *Macroeconomics* introduction by András Simon (1999), *Mathematical Economics* by Ernő Zalai (2001) and András Simonovits (1998), and the *Introduction to Comparative Economics* edited by Zoltán Bara and Katalin Szabó (2000).

It is worth recalling that academic independence/university autonomy implies, *inter alia*, the possibility and acceptable risk of relying on homegrown textbooks, irrespective of the availability of a different text that outside observers may consider superior. *Macroeconomics* by Gregory Mankiw, for instance, has not proven to be a bestseller, nor did the bulky *Monetary Economics* volume or Meir Kohn replace the four volumes BUESPA used on the same subject matter. Attempts to re-introduce the uniformity of the communist period are, of course, doomed to failure.

One of the fundamental components determining the high degree of uncertainty in the area is the *predominantly business orientation of students and faculties alike*.<sup>21</sup> Typically, the leading economics institution, BUESPA, has been reducing the role of theoretical and international courses in its most recent rearrangement of the curriculum. In other faculties I am familiar with, the unilateral business orientation is even stronger, and this is likely to backfire soon. The labor market is known to prefer people with a broad general education for longer-term employment, whereas narrowly specialized or low-skilled people may easily be crowded out at an early stage of their career.

The exponentially growing reliance on the *Internet* helps overcome many of the problems university and graduate students face due to the underfunding of libraries. However, the same financial constraints also limit the number and types of databases that can practically be made available to students and faculty alike.

Hungarian economists have traditionally been active in the *international arena*; the late József Bognár was a member of the Club of Rome and, together with Béla Csikós-Nagy, a formative personality of the International Economic Association. The IEA used to serve as a major bridge between East and West; its conferences drew top-level attendance, especially in the 1970s and 1980s; and the selected papers from conference proceedings have regularly been published as a series by Palgrave (ex-MacMillan), a leading British publishing house. András Bródy, as editor of *Economic Systems Research* (a Carfax journal), has played an important role in the formalized branch. János Kornai, who already published in *Econometrica* in the 1960s (Kornai and Lipták, 1965) and in other leading theoretical journals in the 1970s (Kornai and Simonovits, 1977), was elected President of the Econometric Society in 1978 and President of the equally mainstream-oriented and -dominated European Economic Association in 1987 and also delivered the keynote Ely Lecture of the American Economic Association in 1992 (Kornai, 1992). Iván T. Berend, President of the Hungarian Academy of Sciences in 1986-90 and currently Professor for Russian and European Studies at UCLA, was Vice President of the International Association of Economic Historians from 1986-94. Hungarians have been prominent among the members of the European Association for Comparative Economic Studies. Attila Chikán, the current Rector of BUESPA, has been President of the European Federation of Industrial and Production Management Associations

since 1997 and First Vice President of the World Federation for Sourcing and Management since 1998.

This impressive record contrasts with the *minimal if at all measurable performance of domestic professional associations* of various sorts. The Hungarian Economic Association has long been dominated by active and outgoing politicians (its current chairman served twice as Minister of Finance – in 1987-89 and 1996-98 – and has been elected as the Socialist Party's nominee for the premiership in April 2002; former presidents included the Chairman of the Price Board, the Minister for Planning, etc.). Before transition, the HEA used to publish a very critical analytical quarterly, *Gazdaság* (Economy), obtainable by member subscription only, though it was also available in big libraries. Many innovative articles were published there (as documented in Szamuely and Csaba, 1998), but it was still discontinued in 1990.<sup>22</sup> HEA conventions are conceived and practiced as primarily social and regional events with some policy flavor, *not as academic forums*. Interestingly, no competing group of civil society has emerged, despite the exponential growth in the number of economics and business graduates and postgrad or second-degree holders.

## 6. Views on further development

International cooperation is *likely to grow further* in importance for the evolution of economics in Hungary. Already at the *undergraduate level*, students have the opportunity to study a semester or two abroad, and they do so in masses. This will be an incentive not only to learn languages properly, but also to keep up with the *standards and methodologies* applied in Western centers of excellence. This is likely to enhance interest in good-quality teaching across the board.

Outside the EU, which is likely to remain the defining institutional variable, a pattern of *project-based* cooperation is likely to continue. Multilateral components may grow in importance if the subject matter mandates a comparative perspective, as issues of migration and the environment do. Likewise, some aspects may lead donors to demand a *comparative approach*, since interest in Hungarian or Estonian banking alone, torn out of context, is likely to be too small to make it financially interesting.

It is important to see, however, that the favorable features mentioned above apply more to *business, management, finance, and other policy-related fields*, whereas *academic economics* is likely to suffer from continued underfunding and the resultant bloodletting and adverse selection.

Cooperation is likely to revolve around EU-selected and -animated projects, which are often<sup>23</sup> forward-looking (i.e., help overcome provincialism and seclusion). In some other cases, this may result in strange outcomes, since some of the neighboring countries may fall outside of the frame of such cooperation. To mention just one case, the economics of crime and of border controls are surely issues to which Ukrainian colleagues could meaningfully contribute. But they have no chance, as long funding is EU-dependent and, as such, accession-focused.

Public sector research is ridiculously low in Hungary. Thanks to the reorganization of funding, its share climbed to 0.84 per cent of GDP by 2000 (about a third of the German proportion, or one-tenth of it in absolute terms). This is likely to remain a problem, since the conditions for more private involvement, in the form of nonprofit foundations, are not being brought about. As long as the state dominates universities, *funding* is likely to follow *student numbers, not excellence*. This is known to lead to deterioration of quality and neglect of research, a core component in securing high-quality education. So it is easy to visualize vicious cycle scenarios.

The democratization of university and college education means the extension of this level of schooling to 50 per cent of the cohort by 2006, without adequate support measures to ensure physical infrastructure and without footing the wage bill needed for quality management. This is likely to sustain the *neglect of research* in favor of immediate education/teaching, a key component in the *vicious cycle phenomenon*. Studying EU practices is more instructive than helpful in this respect, as is the approximation of practices to those of German/Italian/French/

British public universities, in what those responsible eloquently dub the “Bologna process”. This produces large quantities of poorly skilled people, while research universities and other postgraduate centers of excellence continue to be “forgotten” by those deciding on funding and new establishments.

Even more of a problem, it seems, has been that research in the public sphere is increasingly *government dominated*, i.e., allocated by bodies directly responsible to politicians and bureaucrats, rather than to the academic community. Public money increasingly tends to target *immediate policy concerns* or sectoral targets of clients of those in charge. Such forward-looking forms as the National Scientific Research Fund, allocated by scientists themselves, have been gradually bleeding to death in recent years. Thus, even what remains in the public sphere for research is likely to be earmarked for other purposes than purely research or academic activities, which again is an important component of the vicious cycle hypothesis.

The problem of the *brain drain* is already severe and is exacerbated by the shortsighted management of the PhD generation. While the gap between the public and private sectors, between business and research earnings has widened to unmanageable proportions, the senior faculty mostly views PhD students as cheap slave labor. On the one hand, the young person with some scientific ambition is paid miserably; on the other, the traditional compensation for this poor pay – freedom – is also taken away. These young people are the ones who are shouldering much of the burden of populist policies of “opening the gates”. Thus, unlike earlier cohorts, they cannot expect to have better qualifications or significantly better quality human capital when they join the labor market.

Such a situation leads able young people to disappear from universities and even more so from pure research. This holds *a fortiori* for the truly academic orientations, like theoretical economics. If these people stick to their priorities, they *must* emigrate (as the personal career paths of Sákovic, Valentiny, Székely, or Kovács, among the references, illustrate).

Given the relatively small number of people involved, it would seem a relatively simple fiscal exercise to substantially reorient expenditures of the Hungarian budget and actually solve this problem. Otherwise the problem, clearly indicated by the overaged staff of the Institutes of the Hungarian Academy of Sciences and most faculties’ lack of PhD students who have published their *second* impressive article, is likely to perpetuate itself. With the fourth freedom – freedom of movement – gradually realized in the EU, there will be no way to stop people from accepting jobs that are paid 12-20 times better, on average, than at home.

<sup>1</sup> This information stems not only from my own observation, but also from my colleagues, Dr. Mária Szlatky, head librarian, and Mr. Vit Lukas, acquisition librarian at the library of CEU, which is one of the more extensive collections. *Hungarika – Irodalmi Szemle* (Review of Hungarian Literature), a publication of the Széchenyi Library that theoretically collects all pieces by Hungarian authors in all fields, appears with considerable delay and suffers from the shortcomings mentioned above, primarily from coincidental reporting/coverage. When the President of the Hungarian Academy of Sciences entrusted a similar task to the present author in 1999, the Library of the Academy flatly declined even to attempt to present a summary overview, and electronic databases are compiled in a mechanical fashion (for example, cataloguing identical authors by different name, if the publication is in a foreign language). The final report of the Section of Economics and Law to the President of HAS emerged as a consolidated list of publications by persons with sufficiently high ranks at universities and in HAS; it was thus never published, since it lacked any attempt at analytical assessment. Szentes and Zalai (2001) is an essay that does assess, but without documentation (like all other reports in the same series).

<sup>2</sup> The Faculty of Economics enjoyed full independence within the Royal Hungarian University of Sciences between 1920 and 1934; then it was merged with the Regent József Technical University. But the KMUE was deliberately founded to break with its predecessors. More on this in Rosta (2001).

<sup>3</sup> Muscovites considered everyone but themselves, even local Communists and veterans of the Spanish Civil War (1936-39), to be traitors, and thus already started purging these in 1945, with the trial of Pál Demény, a leading figure of local underground Communists. KMUE was to become the HR arsenal (*Kaderschmiede*) of the new guard, loyal above all to Moscow.

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- <sup>4</sup> Then, many members joined politics, some retired, and others adopted different (academic or business) orientations.
- <sup>5</sup> Except for Bródy (1969a) and Zalai (1988), no serious academic attempt has surfaced to interpret Marx. No anti-revisionist books appeared in the 1960s and 1970s; the hallmarks of the period were direct applications of the Solow model (Erdős, 1972 and 1989), critical growth-accounting (Jánossy, 1965), and applications of the Chenery-Kuznets model (Kádár, 1984).
- <sup>6</sup> Formalism does not necessarily mean adopting the mainstream approach. In Hungary, the trailblazing monographs, like those of Bródy (1969a), Augusztinovics (1979), and Zalai (1988), attempted to integrate Marxism and the new language. Kornai (1972) earned world fame (as reflected in the work's publication in a dozen languages) with his *critique* of the mainstream, expressed in standard economic terms.
- <sup>7</sup> The pre-war curriculum also contained a broad overview of economic thought; its qualities are reflected in a recent reprint edition published by BUESPA (Heller, 1943/2001). Antal Mátyás, the defining figure of the curriculum and of the official history of thought, started his career in 1942 as an assistant of Heller and never joined the Communist Party. In a way, he represented historic continuity with all of its pluses and minuses.
- <sup>8</sup> The monograph, dubbed *Anti-Capital* by contemporaries, circulated as a mimeo and led to the only major political purge of the so-called Lukács school of philosophers and sociologists in the Kádár period after 1957. While everyone wishing to earn a diploma, MA, or PhD was obliged to condemn it in exams, the book was not published until 1992, after the collapse of communism in Hungary, though parts of it were published by *Magyar Füzetek*, a Paris-based emigré journal for *connaisseurs*.
- <sup>9</sup> A partial exception being the University of Veszprém, with Major (1999) and Major (ed. 1999). The only "trouble" is that the author is a typical representative of the middle generation that grew up in the Institute of Economics of the HAS in Budapest, not from the new foundations.
- <sup>10</sup> According to the tax law of 2000, a maximum of 50 thousand Fts (200 Euro) was deductible for charity donations.
- <sup>11</sup> The regular Household Panels of the TÁRKI Institute for Social Research, which publish their reports annually, have repeatedly documented this point with rich empirical material.
- <sup>12</sup> This included publishing some of their works in Hungarian, both as books and as journal articles.
- <sup>13</sup> Similar stories apply to André Kosztolányi, the one-time "Pope of the Stock Exchange", and to Princeton professor Richard Quandt.
- <sup>14</sup> In this vein, Kornai (1986) describes them as naive reformers who earnestly believe the bureaucratic system can be improved. But this belief stemmed from disenchantment with markets, not from positive postulates about planning.
- <sup>15</sup> The only book in English on globalization to date is published by a critical social scientist (Szalai, 1999).
- <sup>16</sup> The first ideational history of transition studies (Greskovits, 2000: 40-41) highlights the risks of "going global" early and explains, *inter alia*, several failed forecasts on the process.
- <sup>17</sup> This could be observed in two self-reflective series of contributions: in 1996-1997 in *Közgazdasági Szemle*, titled "Between east and west", and in 1999-2000 in *BUKSZ* (Budapest Review of Books), titled "Hungarian economics on the world market".
- <sup>18</sup> According to the most recent self-interpretation of the HAS, written by two leading professors of BUESPA (Szentés and Zalai, 2001: 11), adherents of the mainstream still constitute a distinct minority both in *teaching* and in *research*. This is in line with our critical findings on teaching, but not in terms of measurable output (cf references).
- <sup>19</sup> So similarly in the ironic contribution of András Nagy (1996).
- <sup>20</sup> It is, of course, one important measure, acknowledged also by BUESPA, which has produced no less than three reprint volumes (Berács and Chikán, 1999; Temesi and Zalai, 1999; Lengyel and Rostoványi, 2001) from its faculty's output in refereed English language journals.
- <sup>21</sup> The three-volume reprint series of BUESPA cited above also took business management as its first title. Business orientation predominates among the subjects of BA, MA, and even PhD theses, and this holds *a fortiori* for the new faculties, where up to 95 percent of the output falls within this category.
- <sup>22</sup> For the time being, a reprint journal is published under the same name once a year, without, however, the openly critical flavor of the original.
- <sup>23</sup> This is not always the case. For instance, the critical policy paper by Andor (2000) blaming neoliberalism for every ill in Hungary could hardly be published without – misleadingly – having the European Union in its title.

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